COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

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BOSTON GAS COMPANY d/b/a KEYSPAN	)	**D.T.E. 03-40**
ENERGY DELIVERY NEW ENGLAND	)	

DIVISION OF ENERGY RESOURCES' SECOND SET OF INFORMATION REQUESTS

Instructions

DOER requests that Boston Gas Company ("Boston Gas" or the "Company") submit complete and detailed responses to all Requests and include with such responses all relevant documentation.[1]

Please provide each response on a separate, three-hole punch page with the following:

1. A reference to the D.T.E. docket number;
2. A recitation of the Request , including the information request identification/reference number; e.g. DOER 2-1), and;
3. The identification and business title and address of the person responding to the Request.

In order to expedite the review of the responses, please provide the responses as they are completed. Please do not wait for the completion of all responses.

DOER also requests that the Company provide supplemental responses to these Requests if the Company develops or obtains additional information within the scope of said Requests subsequent to the provision of the initial responses and prior to the close of the record in DTE 03-40.

If any of these Requests are ambiguous or need clarification in any way, please notify Alvaro Pereira, Massachusetts Division of Energy Resources, at 617-727-4732 ext. 151 in order to clarify the Request(s) prior to the preparing the response.

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[1] "Documentation" includes, but is not limited to, writings, drawings, graphs, charts, photographs, phono-records, and other data compilations from which information can be obtained, translated, if necessary, by Bay State, through detection devices, into reasonably useable form.

Information Requests

DOER 2 – 1: Please explain the basis for the Company's conclusion that an inflation-plus PBR formula will incent productivity increases. Include in your response all calculations, historical data, and studies relied upon by the Company.

DOER 2 – 2: Please explain the basis for the Company's conclusion, as set forth at Exh. KEDNE/LRK-1, page 14, that additional productivity increases are unlikely to result under the current rate plan, including in your response an explanation addressing how historical data reliably predicts productivity increases.

DOER 2 – 3: Given the Company's conclusion that additional productivity increases are unlikely prospectively, please explain why the Company could not, or chose not, to adopt an approach designed to cap rates to reflect the collection of revenues adequate to cover rate base expenses plus a reasonable rate of return.

DOER 2 – 4: The proposed negative X-factor implies that the Company needs additional capital for productivity-enhancing investments. Please reconcile this conclusion with the Company's position that additional productivity increases are not likely under the current rate plan, including in your response an identification and explanation of the investments the Company would consider and/or is considering to enhance productivity.

DOER 2 – 5: Please explain whether the proposed X-factor would be the same for all Northeast gas companies and, if so, please reconcile this with the conclusion that Boston Gas is an excellent performer.

DOER 2 – 6: With reference to DOER 2 – 4, please explain why Boston Gas should NOT be more productive than other Northeast Gas Companies, given that Boston Gas is a low-cost producer.

DOER 2 – 7: Adopting the assumption used by the Department in past proceedings that an ideal PBR formulation uses a price index that is related to the costs found in the specific company or industry, please explain the relationship between GDP-PI and gas utility costs, including in your response the following information:

a. an identification of available gas industry inflation indices;
b. an explanation addressing the use of a more indicative inflation factor, such as timely Bureau of Labor Statistics data to compute an index of gas distribution costs; and

c. an explanation addressing the need to include an input-price adjustment to the X-factor if a more appropriate index of gas distribution costs were calculated.

DOER 2 – 8: Please provide, from 1990 – 2000, broken out annually, the TFP figure for Boston Gas individually. If such data is not available or calculable, please provide an explanation concerning such unavailability.

DOER 2 – 9: Exh. KEDNE/LRK – 1, at page 5, lines 16 – 17, states that the gas distribution industry is more capital intensive than the typical business in the economy. Please define:

a. the phrase "more capital intensive" in real numbers, as applicable to Boston Gas; and
b. the phrase "typical business in the economy."

DOER 2 – 10: Exh. KEDNE/LRK-1, at pages 4 – 5 sets forth an explanation of how prices evolve in competitive markets. Please explain the effect upon the explanation set forth on page 4, lines 6 – 25 and page 5, lines 1 – 9 if an index factor more indicative of the prices faced by natural gas utilities was applied.

DOER 2 – 11: Exh. KEDNE/LRK-1, at page 6, lines 13 – 26, appears to state that Boston Gas is a good cost performer and that, "It is therefore appropriate to have lower consumer dividends for utilities that are relatively good cost performers at the outset of a PBR plan." (lines 19 – 20). Please define a "high consumer dividend" and a "low consumer dividend" in real numbers, as applicable to Boston Gas.

DOER 2 – 12: Exh. KEDNE/LRK – 1 states that there have been significant cost reductions implemented by Boston Gas as a result of its PBR plan. Please quantify, and include all appropriate calculations, work papers, and data, how much Boston Gas costs have fallen from 1992 – 2002, including in your analysis:

a. a comparison of cost reductions during the years the PBR plan was in place versus the years prior to the implementation of the PBR plan; and
b. an explanation addressing whether the PBR plan was the only reason for the cost reductions, or whether other factors; e.g. economy-wide or industry-wide factors, were also at play.

DOER 2 – 13: Exh. KEDNE/LRK – 1, at page 10, lines 9 – 10, avers that gas distributors in the Northeast face different cost pressures vis-à-vis distributors in other regions. Please explain the basis for this conclusion, distinguishing how gas distributors differ from the majority of other industries who also face increased costs in the Northeast.

DOER 2 – 14: Exh. KEDNE/LRK – 1, lines 20 – 24, avers that the "best available proxy for TFP growth of the U.S. economy is the multifactor ("MFP") index for the U.S. private business sector. This is calculated by the U.S. Bureau of Labor Statistics ("BLS")." Does the BLS also calculate such an index for utility companies and/or gas utility companies? If so, please provide the average annual rate of growth for utility companies and/or gas utility companies between 1990 – 2000.

DOER 2 – 15: Please explain the basis for not comparing Boston Gas Company to a peer group for the TFP calculations, as was done in developing Exh. KEDNE/LRK-3.

DOER 2 – 16: Please compare the TFP of Boston Gas Company to a peer group, similar to the group used to represent gas distributors in the Northeast or the peer group used in Exh. KEDNE/LRK-3.

DOER 2 – 17: Please explain, including all calculations and work papers, how the Company derived the proposed 0.5 percent Consumer Dividend, as compared to the 0.15 percent Consumer Dividend previously employed in the Company's PBR plan. Please include in your response any empirical data demonstrating that 0.15 corresponds to a low-cost company as compared to 0.5 corresponding to a higher cost company.

DOER 2 – 18: The Company states in its filing that costs declined by 0.30 percent on average during the PBR period of 1997 – 2000 as a result of the PBR plan. Please compare this, including all calculations and appropriate work papers, to the Company's actual cost change(s), as defined in Exh. KEDNE/LRK-3, page 5, during the same period.

DOER 2 – 19: For the purposes of the TFP trend calculations, a peer group of sixteen Northeastern gas distributors was assembled and selected. Please explain the basis for the selection of these sixteen distributors and include in your response:

a. how these distributors compare to Boston Gas in terms of operations, technology, and potential for achieving productivity gains; and
b. who and how many of these distributors have PBR plans or similar incentive regulations, including a description of such planes and incentive schemes.

DOER 2 – 20: Please provide the TFP calculations for each of the utilities included in the Northeast Sample in Exh. KEDNE/LRK - 2; Table 1, page 10.

DOER 2 – 21: Please provide the Output Quantity Index column and the Input Quantity Index column set forth in Exh. KEDNE/LRK-2, Table 2, page 12, for Boston Gas exclusively.

DOER 2 – 22: Please provide Exh. KEDNE/LRK – 2, Table 5, page 21, for Boston Gas exclusively.

DOER 2 – 23: Please provide Exh. KEDNE/NE/LRK – 2, Table 6, page 22, for Boston Gas exclusively.

DOER 2 – 24: Please explain why, in Exh. KEDNE/LRK – 3, the sample used is different than the definition provided of the Northeast industry.

DOER 2 – 25: Please identify, in Exh. KEDNE/LRK – 3, which of the companies have/had PBR plans and/or similar incentive regulation mechanisms implemented, including in your response an explanation of such plans and/or mechanisms, and an explanation as to whether a dummy variable was used.

DOER 2 – 26: Please explain how much of a peer group is the sample set used in KEDNE/LRK – 3, including in your response:

a. whether the companies in this set have comparable economics and technology to Boston Gas and, if so, how they compare;
b. an accounting of peer characteristics;
c. an explanation as to how peer characteristics were accounted for in the cost modeling; e.g. not using an urban vs. a non-urban dummy variable; and
d. an explanation concerning whether the value (cost differential) attributed to the dummy variable associated with the Boston Gas PBR plan could be due to the exclusion of some of these variables.

DOER 2 – 27: Please provide, including all drafts, work papers, and analyses, all model formulations run of Exh. KEDNE/LRK – 3.

DOER 2 – 28: At Exh. KEDNE/JFB – 1, page 26, lines 13 – 16, the witness states that Boston Gas is proposing to maintain the earnings-sharing mechanism established in D.P.U 96 – 50, using a bandwidth of 400 basis points. Please explain whether such a bandwidth is still applicable in the current interest-rate environment.

DOER 2 – 29: Please provide the Boston Gas Company's actual return on equity for all years as are available between 1981 – 2001.

DOER 2 – 30: Exh. KEDNE/LRK – 3, at Table 4, page 17, shows both the actual and predicted costs of Boston Gas for 1993 – 2000. Please provide an annual breakdown of both of these costs for each year included in Table 4.

DOER 2 – 31: Please provide, and/or develop and provide, projections of Return on Common Equity calculated for Boston Gas over the period of time of the proposed PBR Plan.

June 13, 2003